

COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

D.T.E. 02-77

WESTERN MASSACHUSETTS ELECTRIC COMPANY

REQUEST FOR 2003 RATE CHANGE FILING

I. INTRODUCTION

Last year, Western Massachusetts Electric Company ("WMECO" or the "Company") received the Department of Telecommunications and Energy's ("Department") approval to decrease its total overall rates by approximately 14 percent from year-2001 rate levels. This rate reduction was primarily due to the implementation of a lower standard offer service ("SOS") rate for 2002. The effect of WMECO's proposed year-2002 rates was a return to the rates customers experienced in year-2000.

This year, WMECO is proposing to increase its total overall rates by approximately 1.8 percent from year-2002 rate levels. This rate increase is primarily due to the implementation of a higher SOS rate for 2003.

WMECO believes that the increase it is seeking is: (1) consistent with the Massachusetts Electric Utility Restructuring Act (Chapter 164 of the Acts of 1997) (the "Act"); (2) consistent

with WMECO's restructuring plan; and (3) conducive to promoting customer choice for WMECO's customers.

The remainder of this document provides background on WMECO's restructuring plan and explains WMECO's rate proposal and rationale.

II. BACKGROUND

On September 17, 1999, the Department issued its decision on WMECO's restructuring plan in D.T.E. 97-120 ("Order"). As part of that plan, WMECO requested and received approval to divest its generation facilities in compliance with the goals of the Act. To date, all of WMECO's generation facilities have been divested and customers have received the benefits of these sales. In divesting these generating units, WMECO received a high value, in part due to the fact it did not require the new owners of the sold generation to supply its standard offer needs at pre-set prices. As approved by the Department, WMECO's entire SOS needs would be procured from the wholesale power market through a competitive solicitation process. (Order, p. 190).

In 97-120, the Department provided a definition for efficient SOS as:

The standard offer service represents a regulated alternative to competitively procured electricity supplier for existing customers who do not choose another supplier. To prevent distortion in the competitive generation market, the price for standard offer generation ideally would be set in the following manner: first, the cost of providing standard offer generation would be determined through a competitive auction with no set or capped bid prices; and second, the price for standard offer generation would be set to recover its cost, as determined by the unconstrained auction. If customers see the market-determined cost of standard offer generation, they are able to make

choices between the distribution company's standard offer and competitive alternative based on efficient signal from the marketplace.¹

Additionally, the Department directed the Company to set its SOS retail price for each year that SOS is available at the wholesale supply price identified through the standard offer solicitation.²

Pursuant to the Order, WMECO solicited supply arrangements during the fall of 1999 for its 2000 standard offer supply requirements. While it was WMECO's desire to seek SOS supply for more than one year, it acquiesced to input from other parties to limit its Request for Proposal ("RFP") to one year. That solicitation was successful and produced a standard offer rate of 4.557 cents per kilowatt-hour for calendar-year 2000.

During the fall of 2000, WMECO again solicited offers for SOS for calendar-year 2001. On December 4, 2000, WMECO filed the results of its second SOS with the Department. That solicitation was successful and produced a standard offer rate of 7.258 cents per kilowatt-hour for calendar year 2001.

During the fall of 2001, WMECO solicited offers for SOS for calendar-year 2002. On October 16, 2001, the Department approved WMECO's 2002 SOS supply contract. This successful solicitation resulted in an average price of 4.829 cents per kilowatt-hour.

¹ Order, pages 170-171.

² *Id.*, page 191.

This fall, WMECO solicited offers for SOS for calendar-year 2003. On November 1, 2002, the Department approved WMECO's 2003 SOS supply contract. This successful solicitation resulted in an average price of 4.882 cents per kilowatt-hour.

III. WMECO'S RATE PROPOSAL

The proposed increase in rates reflects the higher cost of WMECO's competitively-procured SOS while maintaining its transition charge recovery of stranded costs at year-2002 levels.

A. WMECO's Proposed SOS Price

As stated above, WMECO secured a contract for 2003 SOS at 4.882 cents per kilowatt-hour. Also included as part of the SOS price that customers will pay in 2003 is a reconciliation of year-2001 SOS revenues and expenses of 0.056 cents per kilowatt-hour. This adjustment was calculated pursuant to WMECO's Standard Offer Service tariff, MDTE No. 1025D. The calculation of the resulting SOS price, 4.938 cents per kilowatt-hour, can be found in Attachment 9 of this filing.

B. Other Bill Component Changes

In 2001, in order to mitigate customers' bill impacts due to the higher SOS price, WMECO reduced its transition charge rate to 0.535 cents per kilowatt-hour. In 2002, WMECO increased its transition charge to 1.357 cents per kilowatt-hour. For 2003, WMECO is proposing to increase its transition charge to 1.424 cents per kilowatt-hour to reflect a

reconciliation of year-2001 default service (“DS”) revenues and expenses of 0.067 cents per kilowatt-hour. This DS adjustment was calculated pursuant to WMECO’s Default Service tariff, MDTE No. 1026I. The calculation of the DS true-up rate can be found in Attachment 9 of this filing.

In this filing, WMECO is proposing an adjustment to its transmission charge. WMECO has calculated an adjustment to its transmission rates in accordance with its Transmission Cost Adjustment tariff, MDTE No. 1028B. WMECO’s proposed transmission adjustment is 0.079 cents per kilowatt-hour and can be found in Attachment 10.

Another proposed rate change includes the statutorily-mandated reduction to the renewable energy charge from 0.075 to 0.050 cents per kilowatt-hour. Pursuant to Chapter 45 of the Acts of 2002, the conservation charge remains unchanged from last year at 0.250 cents per kilowatt-hour.

C. Calculation of WMECO’s Inflation Adjustment

WMECO has calculated the effect of inflation for calendar-year 2003 rates. The Company used the same inflation methodology that was approved by the Department and used for year-2000 rates. Under this methodology WMECO calculated its 1997 total rate, adjusted for inflation to 2003, and decreased it by 15 percent in accordance with the Act. The Company’s inflation calculation can be found in Attachment 3.

D. Consistency of WMECO's Rate Proposals with Its Approved Restructuring Plan

WMECO believes the proposed rate approach is consistent with the 15 percent reduction from inflation-adjusted, August 1997 rates, and reflects its market-determined cost of standard offer service. Details of WMECO's proposed rates are shown in Attachment 4. Based on the above, WMECO's proposal complies with the Act and the Department's policies and should be approved.

IV. PROPOSED TARIFFS

WMECO has designed rates to achieve the proposed rate levels mentioned above. A comparison of current and proposed rates is provided in Attachment 5. Bill comparisons demonstrating the effect of the proposed rate increase compared to current rates for standard offer service and default service customers are shown on Attachments 6 and 7, respectively. Calculation of proposed revenues and supporting workpapers are shown on Attachment 8.

For rates that remain bundled (Rates S-1, S-2, I-1, I-3, and PR) WMECO has adjusted these rates by the net value of the change of the unbundled components. Rates S-1, S-2, and PR received an increase of 0.176 cents per kilowatt-hour (Standard Offer 0.097, Transmission 0.037, Transition 0.067, and Renewable Energy -0.025). Interruptible rates I-1 and I-3 received an increase of 0.235 cents per kilowatt-hour (Standard Offer 0.156, Transmission 0.037, Transition 0.067, and Renewable Energy -0.025).

The SOS charge for Interruptible rates in 2003 is 4.576 cents per kilowatt-hour, which equates to a 0.156 cents per kilowatt-hour increase over the 2002 rate of 4.420 cents per kilowatt-hour.

VI. CONCLUSION

WMECO believes that its proposed rate adjustments are a reasonable and appropriate means to incorporate its 2003 SOS supply contract in customer bills.